

## **Industry Restructuring Update October 2004**

### **RRG keeps working through governance issues**

The Regional Representatives Group will take another month to resolve remaining issues on proposed bylaws, following discussions Oct. 26-27 in Portland. A Nov. 3-4 meeting to consider bylaw adoption has been postponed until Dec. 9. In the meantime, the bylaws workgroup will complete its work on outstanding issues, building on suggestions from the National Academy of Public Administration.

In addition, four persons assigned at the RRG's Oct. 12-13 meeting to address substantive remaining differences will keep working to resolve underlying concerns of some RRG members. This "mediation facilitation group" will shop its concepts with RRG members and present its conclusions at an RRG meeting Nov. 18-19 in Portland. By Nov. 22, the bylaws workgroup will post proposed bylaws for review. See: [http://www.rtowest.com/RRG\\_GridWestBylaws.htm](http://www.rtowest.com/RRG_GridWestBylaws.htm)

### **BPA concurs with short delay**

A number of utilities requested more time to consider the Grid West bylaws. There are two views. BPA concurs with RRG members who called for time to further refine the bylaws and to shop the final version with their members and stakeholders.

Snohomish PUD and other vocal opponents of RTOs asked to delay bylaw consideration until Grid West design and costs are fully known. Snohomish says it fears that, if BPA agrees to the bylaws now, it will be difficult for BPA to say no to participating in Grid West operation later. BPA's Allen Burns responded that the decision point #1 bylaws decision is not a decision to join Grid West, and that BPA remains free to "decide at any point in the Grid West development process that it is not in the region's interest for BPA to continue to participate."

### **First Grid West services outlined**

Preservation of existing transmission rights is the number one principle of the Beginning State design of Grid West. That's the underlying guideline given by Grid West filing utilities to consultants working on the details. A consulting firm, The Structure Group, now has outlined two distinct levels of service Grid West would offer Northwest utilities.

For utilities that choose to participate in Grid West, but do not choose to consolidate their control areas, Grid West would act as transmission reservation and scheduling service, including a single, regional OASIS (open-access same-time information system). It also would help transmission rights holders remarket rights voluntarily through a reconfiguration service. In addition, for utilities that agreed to consolidate their control areas, it would operate the combined transmission grid, and would acquire ancillary services through open markets to support reliable operation. The design is still in its early stages, with many details yet to come. The TSLG's report is posted at: [http://www.rtowest.com/TSLG\\_Main.htm](http://www.rtowest.com/TSLG_Main.htm)

### **RRG risk-reward group to survey today's grid costs**

The Grid West risk-reward work group will survey Northwest utilities, resource developers and other transmission users this winter on the costs and problems they have experienced in grid operation since 2002. Topics will include costs incurred due to prescheduled and real-time curtailments, in dispute resolution efforts, and due to delays related to the queuing process for long-term transmission access. Survey results will be one of several sources of a preliminary analysis of Grid West costs and benefits before decision point #2 – seating the developmental board. For details, go to: <http://www.rtwest.com/Doc/RRWorkgroupUpdateOct13.pdf>

### **Model will stress-test Grid West rules**

The computer model BPA plans to use to analyze its potential policy choices on Grid West was introduced recently to the RRG risk-analysis work group. It's called "Energy 20/20."

"Energy 20/20 is a framework in which we can test and measure the impacts of various policy decisions and their impact on Grid West," said BPA analyst Ottie Nabors. "We want to work with the RRG risk-reward group to frame the policy questions we should test and capture in the analysis for our due diligence. We'll be able to consider, do these market rules actually work to get us where we want to be?"

"We stress-test the rules," said Dr. George Backus of Systematic Solutions, Inc. The model has been used by regulators and utilities around the world since the 1980s, Nabors said. It relies on a systems dynamics approach that goes back to the 1960s work of Dr. Jay Forrester at MIT. (See <http://sysdyn.clexchange.org/>) Backus has done work for BPA on aluminum smelter options, economics of transmission versus energy efficiency, and, currently, program design options for energy efficiency. As a result, there already is a BPA model within Energy 20/20.

For Grid West analysis, Nabors and Backus are adding into Energy 20/20 a simplified form of Power World, a transmission system power flow model used by the Western Electricity Coordinating Council, BPA's Transmission Business Line and many Western utilities. "Where WECC has 14,000 buses, we're redefining a 2,100 buses in 51 zones – a less detailed but adequate framework to see flows across the WECC and especially in the Northwest," Nabors explained. "This way, as we test policy decisions, we'll know bus-to-bus the effects on price, loads and costs." The model should be ready to support analysis early next spring, Nabors said.

### **Nothing new in rest of Henwood study**

Snohomish PUD released the complete edition of the RTO cost-benefit study it commissioned from Henwood and Associates. "We feel a meaningful study can only be achieved after the market design and technical requirements of the Beginning State are more clearly defined," BPA's Allen Burns responded. He invited Snohomish "work with us on these upcoming cost-benefit studies so we can assure that mutual issues of concern will be analyzed."

### **FERC studies new RTO costs**

Starting a new Regional Transmission Organization should cost \$50 million to \$70 million, and annual RTO operating costs should run about the same, according to a staff report from the

Federal Energy Regulatory Commission. FERC said that cost comes to less than 20 cents per month for the average residential customer or less than one-half of 1 percent of the average residential power bill, and that costs would be offset over time by efficiency gains. The report is posted at: <http://www.ferc.gov/EventCalendar/Files/20041006145934-rto-cost-report.pdf>

### **What's a good Northwest transmission adequacy standard?**

With or without Grid West, the Northwest's transmission grid functions as a single unit, as least as far as the electrons are concerned. Given this reality, BPA's Transmission Business Line is initiating an "open and thorough" discussion on what it would take to define transmission adequacy standards. TBL is inviting public comments on its new draft discussion paper, "Transmission Adequacy Standards, Planning for the Future." Administrator Steve Wright said he hopes that by the end of 2005, a transmission adequacy standard will have been adopted by BPA and other utilities in the region and that BPA will be using it to make capital allocation decisions. BPA is not proposing a solution or alternatives at this time but is taking comments through Nov. 15 on key areas, including:

- The geographic scope of transmission planning and decision-making (Is it for BPA alone or the entire Northwest?)
- The costs and risks that utilities and customers are willing to assume for system reliability.
- The relationship between the physical adequacy of the transmission system and economic adequacy. (How much congestion is acceptable?)

### **How should the Northwest measure generation adequacy?**

How does the Northwest know when it has adequate power generation? How does the West know? BPA's Mary Johannis is leading efforts to establish metrics to define resource adequacy in the Pacific Northwest, and is participating in a Western Electricity Coordinating Council effort for the Western Interconnection.

"The 2000-2001 West Coast power crisis taught us that market forces don't do it for resource adequacy, and that the public has little tolerance for high and volatile market prices over a prolonged period," Johannis explained. "In a deregulated market, we need enforceable standards."

Complicating the question is the fundamental physical difference between the Western system, particularly in the Northwest, and that of the Eastern U.S. The rest of the nation uses capacity margin to gauge generation adequacy. But the West, and particularly the Northwest, has an energy-short system. Some areas, such as Northern California, may be short on both capacity and energy. "We need to develop metrics that work for the West and for energy-constrained systems," Johannis said. "And we need to use common tools and data collection standards."

The North American Electric Reliability Council is undergoing very prolonged, structured, public process for authorizing requests to establish standards. NERC has asked each of the nation's 10 reliability regions to develop their resource adequacy standard. The Western

Electricity Coordinating Committee is the NERC reliability council for 13 Western states and two Canadian provinces. WECC sees its role to define adequacy standards and assess whether utilities are meeting them, Johannis said. Meanwhile, the Western Governors' Association Committee on Regional Electric Power Cooperation or CREPC is addressing enforcement through state public utility commissions.

"That still leaves a big gap," Johannis said. Publicly owned utilities are governed locally, and do not answer to state public utility commissions or federal regulators.

The question is particularly important to BPA if, as proposed in the Regional Dialogue, the agency no longer would expect to serve as the Northwest default power supplier. "If we're not going to be the resource provider, we need to know with certainty who is," Administrator Steve Wright has said. The Northwest Power and Conservation Council has launched a power supply adequacy forum and is receiving comments on the subject in review of its fifth draft Power Plan.

Finally, public interest group leaders have suggested that regional resource adequacy standards should be "part of the puzzle" addressed in BPA's Regional Dialogue process, because, they believe, understanding regional resource adequacy "needs to be an integral part of the task of allocating the benefits of the federal system."

Johannis' recent presentation on generation adequacy standard and metrics efforts is posted at: <http://www.bpa.gov/corporate/business/restructuring/Docs/2004/IRCoreTeamResourceAdequ101804.ppt>

### **For more information**

See BPA's Industry restructuring website at <http://www.bpa.gov/corporate/business/restructuring/>